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SUBJECT: Costa Rica's Spectrum Auction

11. (U) Costa Rica's telecom regulator, SUTEL, held a public meeting January 18th to announce the schedule and conditions under which the cellular phone market will be opened to competition. The method of choice will be a "hybrid" auction in which competitors must first demonstrate their qualifications and present their technical proposals. Then the qualifiers bid against each other for the cellular spectrum. Only companies that have operated in multiple countries and managed networks of similar size and complexity to Costa Rica's network will qualify. The published schedule starts with SUTEL's presentation of the auction announcement February 5, followed by reception and examination of the companies' technical proposals on March 19, opening of the bids on April 16th, delivery of SUTEL's recommendation to the Executive April 20, and signature of the concession contracts three days before the end of the Arias Administration on May 5. If all goes as planned, the new cell phone competitors would begin operating in the market in late 2010.

12. (SBU) Despite the formal nature of the announcement, we anticipate some problems going forward. The manner in which the schedule has been compressed in order for contracts to be signed by the outgoing Administration raises some concern that the process is too hurried. One specific issue that has not yet been satisfactorily resolved is designation and use of the microwave frequencies that are used to transmit signals from each individual radio tower to trunk lines. Those microwave frequencies are partially occupied by ICE and television operators and are not a part of the bid package. The President of the SUTEL board George Miley stated that, at some point after the May 5 contract signature, the GOCR will ensure that the winners of the cellular licenses are given sufficient transmission capacity over microwave frequencies. The frequencies will be made available on a non-exclusive basis to the auction winners through a process known as "direct concession".

13. (SBU) The Administration's non-competitive assignment of microwave frequency on a non-exclusive basis will create uncertainty among prospective spectrum bidders. As one observer told us with some hyperbole, building a cell-phone network without guaranteed microwave transmission capacity is "like building a highway without bridges." We expect Vice Minister of Telecommunications Hannia Vega to address aspects of this issue in the near future, but any modification to the plan outlined above would likely require more time and upset the Administration's schedule.
BRENNAN